

## **Diamante Del Mar Development**

Approximately 9,727 acres located between  
Highway 1 and the Pacific Ocean,  
adjacent to El Rosario, Baja California, Mexico

### **SUMMARY APPRAISAL REPORT**

**AS OF APRIL 1, 2005**

**June 7, 2005**

**Prepared by:**

**KPMG LLP**

**Suite 1500**

**750 'B' Street**

**San Diego, California 92101**

**Submitted to:**

**Mr. William J. Najam, Jr.**

**Chief Operating Officer**

**Diamante Del Mar, LLC**

**2 Dogwood Drive**

**Danbury, CT 06811**

June 7, 2005

**PRIVATE**

Mr. William J. Najam, Jr.  
Chief Operating Officer  
Diamante Del Mar, LLC  
2 Dogwood Dr.  
Danbury, CT 06811

Dear Mr. Najam:

In accordance with our engagement letter, KPMG LLP's Economic and Valuation Services Practice ("KPMG") is pleased to present our analysis of the market value of approximately 10,000 acres of undeveloped land (the "Subject" or "Subject Property") located between Highway 1 and the Pacific Ocean, adjacent to El Rosario, Baja California, Mexico held by Diamante Del Mar, LLC ("Diamante Del Mar"). Diamante Del Mar holds legal title ("fee simple") to approximately 8,065 acres and leasehold interest in the remaining approximate 1,662 acres.

In arriving at our conclusion, KPMG applied generally accepted appraisal procedures based upon economic and market factors as of the valuation date. KPMG prepared the appraisal on the basis of market data, our internal research, public information, and material information provided by the client. This report has been prepared according to the guidelines and requirements of the Uniform Standards of Professional Practice (USPAP) and the Code of Professional Ethics of the Appraisal Institute.

The scope of work completed represents a complete appraisal of the Subject Property communicated in a Summary Narrative report.

We understand that our appraisal and this appraisal report are to be used for internal planning purposes and to share with current and prospective investors. You have agreed not to disclose or discuss our findings in connection with other matters, such as a sale of the business to a third party, a public offering, or a private placement. This engagement is subject to the terms and conditions described in our engagement letter and the Limiting Assumptions.

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Baja California, Mexico*

**VALUATION OPINION**

Based on the valuation analysis described in the accompanying report and supporting exhibits, it is our professional opinion that the market value of the fee simple and leasehold interests of the Subject Property, as of April 1, 2005 is:

**SIXTY EIGHT MILLION NINE HUNDRED THOUSAND DOLLARS**  
**\$68,900,000**

KPMG has no present or contemplated future interest in the Company, or any other interest, which might prevent us from performing an unbiased business valuation. We appreciate the opportunity to assist you on this project and your cooperation in promptly furnishing all materials we needed to complete our study. If you have any questions, please contact Randi Rosen at (619) 525-3246.

Respectfully submitted,

*KPMG LLP*



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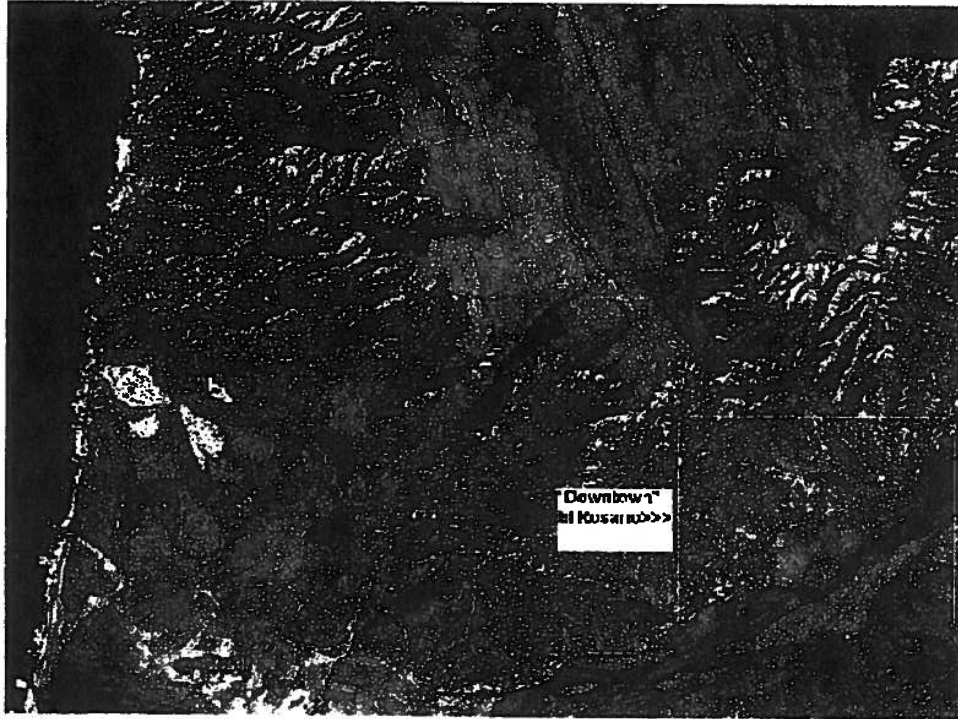
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**SUMMARY OF SALIENT DATA**



**DIAMANTE DEL MAR CLUB**

**Location:** Between Highway 1 and the Pacific Ocean, adjacent to El Rosario, Baja California, Mexico. The Subject Property is approximately 210 miles south of San Diego.

**Description:** The Subject Property consists of a large oceanfront tract of land. Diamante Del Mar is currently in the process of developing a master planned community ("Diamante Del Mar Club" or "Proposed Development") on approximately 3,000 acres of the property with the balance available for other real estate development. The Subject is currently improved with a concrete airstrip, several graded, unpaved roadways and a small number of single-family residences (to be demolished upon commencement of construction of the development).



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The Planned Development consists of approximately 8,500 acres of developable land area. The Diamante Del Mar Club developed portion is slated to include a luxury golf resort to be completed in three phases. In total, the resort is expected to include the following:

300 private residential lots, 175 villas, 100 employee residential units, three golf courses, golf practice facility, a clubhouse, a "Hacienda" compound that includes guest accommodations, lodge and additional guest suites, tennis center, winery and vineyards, equestrian center, additional villas and casitas, an 80-acre recreational lake, small marina facility, commercial center and necessary infrastructure in addition to the completed airstrip.

The balance of property is to be held for future development.

**Land Area:**

The Subject Property consists of six "Grupos", comprised of 10 parcels, with a total land area of 3,936.43 hectares (39,634,320 M<sup>2</sup>, or 9,727 acres) as certified by the Mexican government.

**Development Status:**

As of March, 2005 Diamante Del Mar acquired good, clear, marketable, insurable title<sup>1</sup> to three parcels of land that comprises approximately 8,065 of the 9,727 total acres (details of the transaction can be found in the Ownership Interest Appraised section). As of the date of value, Diamante Del Mar is soliciting title insurance from Fidelity Global Solutions on the above-mentioned three parcels. According to Diamante Del Mar, a first mortgage security interest on the three parcels will be available to a lender at the time of closing on any loan. There are no encumbrances on the Subject Property.

Diamante Del Mar expects to obtain fee simple title on three parcels that comprise 1,218 acres three to six months after the date of value. This transfer would bring the total acreage held in fee simple estate to approximately 9,283 acres. The remaining approximate 444 acres would continue to be held in leasehold interest (Ejido) and all development on this portion of the property would rely on the Ejido terms.

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<sup>1</sup> Known as "Legal Title", with legal aspects similar to fee simple title. From hereon in the appraisal report referred to as fee simple title, or fee simple estate.





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Diamante Del Mar has budgeted approximately \$230,000,000 for the development of the Diamante Del Mar Club. The Proposed Development is expected to be completed in three phases over three to seven years.

Phase I – includes half of the private jet airstrip, the Fazio designed oceanfront golf course, the golf practice facility, the construction road, the main entrance road to the oceanfront core area, the maintenance facility, final designs for the Love golf course and core facilities, and a “Hacienda” compound on three and one half acres with accommodations for members and guests. The total development cost for Phase I is estimated at \$65,000,000.

Phase II – includes construction of the Love designed oceanfront golf course, the lodge and guest suites, clubhouse, tennis complex, spa, fitness center, winery and vineyards, equestrian center, recreational facilities, additional villas and casitas. The total development cost for Phase II is estimated at \$100,000,000.

Phase III – may include a third “links” style golf course on the edge of the mesa, a recreational lake for fishing and water sports and a small marina facility. The total development cost for Phase III is estimated at \$65,000,000.

Diamante Del Mar has obtained the entitlements necessary to start construction of Phase I of the Proposed Development.

**Ownership Interest Appraised:**

As of the date of value, three parcels are held in fee simple estate. In March, 2005, title to these three parcels has been transferred to two new Mexican SRL corporations (Desarolladora DDM S de RL de CV and Inmobiliaria DDM S de RL de CV) with Diamante Del Mar having a 99% shareholder interest and control in each. The remaining 1% interest is owned by Fernando Garcia Campuzano, the attorney to Diamante Del Mar.

The remaining six parcels are held in leasehold estate.

**Highest and Best Use:**

Resort Master Planned Development

**Effective Date of Opinion:**

April 1, 2005

**Date of Report:**

June 7, 2005





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**Valuation Conclusion:**

Cost Approach: Not Applicable

Sales Comparison Approach: \$68,900,000

Income Approach:

Discounted Cash Flow Not Applicable

Direct Capitalization Not Applicable

**Fee Simple and Leasehold Interest  
Market Value Conclusion:** \$68,900,000

**Value Per Acre:** \$7,088



Diamante Del Mar Master Planned Resort  
Baja California, Mexico

## **INTRODUCTION**

### **Identification of the Property**

The Subject Property is located between Highway 1 and the Pacific Ocean, adjacent to El Rosario, Baja California, Mexico. The Subject consists of approximately 9,727 acres of primarily undeveloped land with approximately four and one half miles of ocean frontage. The Subject Property is identified by six Grupos certified by the Mexican government. Topographical features of the Subject include rocks and bluffs along the coastline, rolling hills in the lower elevations located adjacent to the coastline, badland inclines further inland from the center of the property that increase to the mesa adjacent to Highway 1.

As of the date of value, improvements to the Subject Property include a concrete airstrip, several graded, unpaved roadways and a small number of single-family residences (to be demolished upon commencement of construction of the development).

### **Purpose of the Valuation Analysis**

The purpose of this appraisal is to estimate the fair market value of the fee simple and leasehold interests in the Subject Property as of April 1, 2005. As such, the effective date of value is April 1, 2005 and the value was estimated under the economic conditions prevailing.

### **Intended Use of the Appraisal**

The intended use of this appraisal is for internal planning purposes.

### **Scope of the Appraisal**

The scope of this summary narrative appraisal report is to estimate the market value of the fee simple and leasehold interests in the Subject Property by use of all applicable steps of the appraisal process. These steps include the following: definition of the appraisal problem; site analysis; market data section, verification and analysis; application of the applicable approaches to value; and a final value estimate. The assignment includes the collection, analysis and evaluation of specific data pertinent to the Subject Property. Sources researched in the collection of data include, but are not limited to: various government agencies, industry surveys and publications, developers, investors, real estate agents, property managers and consultants interviewed in the course of estimating the market value of the property.

### **Definition of Market Value**

The definition of Fair Market Value, as used in this report is:

*"The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition of market value is the consummation of a sale of a specified date and the passing of title from seller to buyer under conditions whereby:*

- 1) buyer and seller are typically motivated;*
- 2) both parties are well informed or well advised, and acting what they consider their own best interests;*



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- 3) *a reasonable time is allowed for exposure in the open market;*
- 4) *payment is made in terms of cash in United States dollars or in terms or financial arrangements comparable thereto; and*
- 5) *the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale."*

*Per Appraisal Standards Board of the Appraisal Foundation, Uniform Standards of Professional Appraisal Practice, 2003 Edition p. 224*

#### **Date of Inspection and Value**

Our fair market value estimate is as of April 1, 2005. The Subject was inspected by Brian Tankersley on April 28, 2005.

#### **Marketing Time**

The reasonable marketing time is an opinion of the amount of time it might take to sell a real or personal property interest at the concluded market value level during the period immediately after the effective date of an appraisal. The marketing period is also estimated to be one to two years.

#### **Exposure Time**

Exposure time is defined as the estimated length of time the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal; a retrospective opinion based on an analysis of past events assuming a competitive and open market. A reasonable exposure time of one year or less is estimated based on prevailing market conditions.

#### **Ownership of the Subject**

As of the date of value, three parcels are held fee simple estate (see Property Rights Appraised for definition). In March, 2005, title to these three parcels has been transferred to two new Mexican SRL corporations (Desarolladora DDM S de RL de CV and Inmobiliaria DDM S de RL de CV) with Diamante Del Mar having a 99% shareholder interest and control in each. The remaining 1% interest is owned by Fernando Garcia Campuzano, the attorney to Diamante Del Mar.

The remaining three parcels are held in "Ejido Land Tenancy", similar in legal aspect to leasehold estate. The following section provides a brief summary of the history and legal considerations of Ejido tenancy and foreign ownership of real estate in Mexico.

#### ***Ejido Land Tenancy***

The Subject Property is located in a restricted zone that is owned by the local Ejidatarios. Ejido land tenancy is a unique aspect of Mexican land ownership. Originally conceived as a means of preserving coastal lands for the communal residents of Mexico, Ejido land is a form of communal land ownership. The members of Ejidos are authorized to use the designated land for housing, construction, farming, ranching and other agricultural uses, but in the past, could not sell their land. During the presidency of Salinas de Gotari, the Ejido system was revised (the "*Procede*") and some Ejidos were granted title to their land, similar to "fee simple" ownership. This *Procede* has made foreign investment in Ejido land a distinct possibility.



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Prior to the *Procede*, foreign land ownership in Mexico was restricted to any areas within 62 miles of any Mexican border and 31 miles of any Mexican seacoast, through *Fideicomiso* tenancy. This type of ownership is essentially a beneficial trust, administered by a Mexican bank. The Mexican bank holds the title of the land, for the benefit of the foreign landowner, who has the rights and privileges to utilize the land. The *Fideicomiso* tenancy can be sold, transferred or renewed, similar to a leasehold tenancy. At the culmination of the trust period, typically an initial term of 50 years, if the *Fideicomiso* tenancy is not renewed, then the Mexican financial institution that holds title will sell the property and grant the proceeds from sale to the foreign investor. Typically, *Fideicomiso* lands were restricted by the Mexican government to 50 acres or less.

Lands outside of restricted zones have greater access to foreigners, for investment in Mexico. Any purchases of land holdings outside of restricted zones are transferred with title similar to a fee-simple estate. Such foreign landowners are required to abide by the *Calvo Clause*, which basically states that the foreign investor agrees to consider themselves a Mexican national in any instances of land ownership disputes. Thus, the foreign investor is not allowed to seek assistance from their native country with regard to such disputes.

#### **Property Rights Appraised**

We have appraised the fee simple estate in three parcels held in fee simple estate by Diamante Del Mar in addition to the remaining parcels held by leasehold estate. A fee simple estate is defined by the Dictionary of Real Estate Appraisal (Third Edition) as:

*"The absolute ownership unencumbered by any other interest of estate: subject only to the limitations of eminent domain, escheat, police power, and taxation"*

A leasehold estate is defined by the Dictionary of Real Estate Appraisal (Third Edition) as:

*"The interest held by the lessee (the tenant or renter) through a lease conveying the rights of use and occupancy for a stated term under certain conditions."*

Property rights appraised do not include personal property (i.e. furniture, fixtures and equipment), as well as any intangible property (i.e. business or going concern value).

#### **Sale History of the Subject Property**

As of March, 2005 Diamante Del Mar acquired good, clear, marketable, insurable title to three parcels of land that comprises approximately 8,065 of the 9,727 total acres. (Details of the transaction can be found in the Ownership Interest Appraised section)

#### **Valuation Methodology**

The valuation of real estate is typically based on one or all of the three traditional approaches to value. These are described as:



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#### *The Cost Approach*

The Cost Approach is an estimation of market value developed by computing the current cost of replacing a property and subtracting any depreciation resulting from one or more of the following factors: physical deterioration, functional obsolescence and economic obsolescence. The value of the land, as if vacant and available, is then added to the depreciated value of the improvements to produce a total value estimate. The cost approach may provide a reliable estimate of value for newly constructed properties; however, as buildings and other forms of improvements increase in age and begin to depreciate, the resultant loss in value becomes increasingly difficult to accurately quantify.

#### *The Income Approach*

The Income Approach is based on either an analysis of the Subject Property's estimated Net Operating Income (Direct Capitalization Method) or estimated cash flow (DCF analysis). The Net Operating Income is capitalized to arrive at an indication of value from the standpoint of an investment. The Direct Capitalization method is best for situations in which steady changes in income are expected. The DCF analysis is well suited for situations where income is expected to change from year to year, because of lease expirations or absorption. This approach measures the present worth of anticipated future benefits (cash flow) derived from a property.

#### *The Sales Comparison Approach*

The Sales Comparison Approach estimates the value of a property by comparing it with similar properties recently sold in the open market. To obtain a supportable estimate of value, the sales price of a comparable property must be adjusted to reflect any dissimilarity between it and the Subject Property. The sales comparison approach may provide a usable value estimate for simple forms of real estate, such as vacant land and single family homes, where the properties are homogeneous and adjustments are few in number and relatively simple to compute.

For the purpose of estimating market value of the Subject Property, we have utilized the Sales Comparison Approach to value. We did not utilize the Income Approach due to the lack of income attributable to the Subject as of the date of value. The Cost Approach was not considered applicable due to the lack of improvements that contribute to the overall value of the Subject Property.

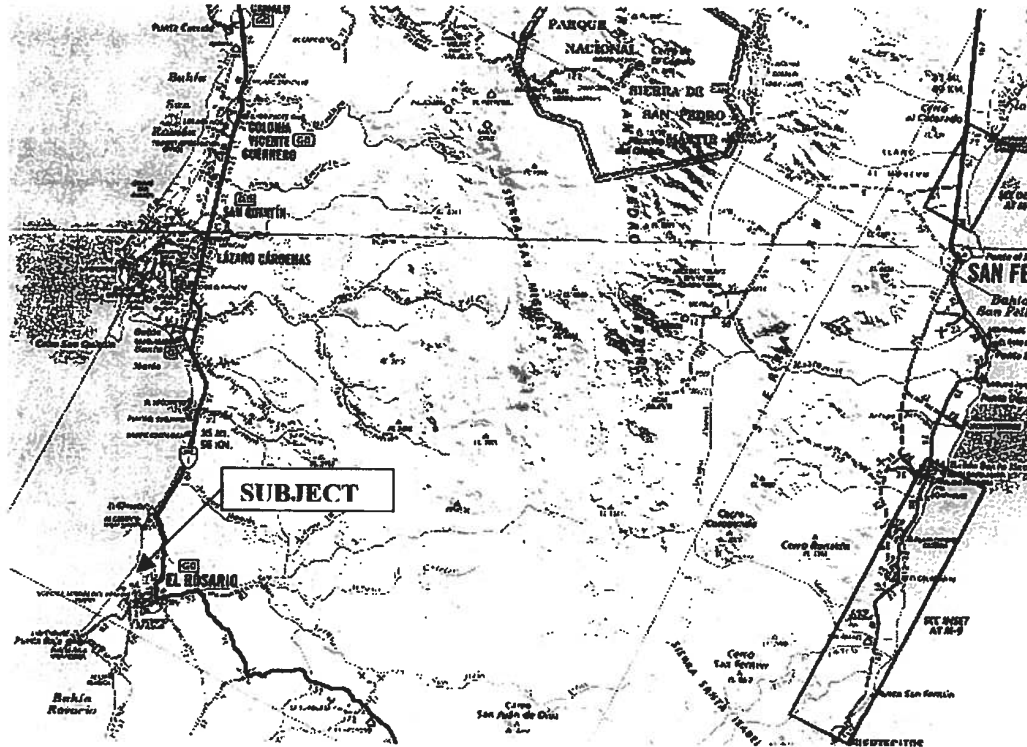


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## **DESCRIPTION SECTION**

### **Area Overview**

The Subject Property is located between Highway 1 and the Pacific Ocean, adjacent to El Rosario, Baja California, Mexico.



### *North/Central Baja California, Mexico*

Baja California ("Baja") is located in the Northwest part of Mexico and is a Peninsula that shares a common border with Arizona and California. Baja is bordered by the Pacific Ocean on the west, the Sea of Cortez on the East and consists of more than 900 miles of coastline. The region is composed of large deserts with sandy bluffs and hilly forestry zones to rustic seacoasts and sandy beaches. Temperatures are considered Mediterranean and the regular sunshine makes Baja a major tourism destination for sea-cruises, vacationing or other outdoor activities.

### *Population*

As of year-end 2002, the INEGI estimates that Baja California has a population of over 2.7 million residents. Baja California is considered the fastest growing state in Mexico, with approximately 4% annual population growth. Employment migration is considered one of the most compelling reasons why Baja is growing at its rapid rate, as many Maquiladora factories and plants are located nearby and require numerous technical workers.





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Population in Baja is concentrated along the north border in Tijuana, which includes over 50% of the state according to CONEPO. In addition, Mexicali, which is located east of Tijuana, comprises almost 30% of the population. The flowing chart illustrates the INEGI estimate of Baja population in 2003.

<b>Baja Population 2003 - 2010</b>			
<b>Municipality</b>	<b>2003</b>	<b>2005</b>	<b>2010</b>
Ensenada	423,849	455,267	544,381
Mexicali	836,847	878,183	990,679
Rosarito Beaches	85,461	100,217	149,240
Tecate	90,853	98,701	121,419
Tijuana	1,473,900	1,637,068	2,128,451
Baja	2,910,910	3,169,436	3,934,170

*Source: INEGI Estimation based on 2000 Census*

The population of Baja has been increasing at an annual rate from 3.1% to 8.6% since 1960. The greatest increase since 1960 has occurred in Tijuana, which grew from 165,690 residents in 1960 to 1,210,820 in 2000. The following charts illustrate Baja's population growth.

<b>Baja Population 1950-2000</b>						
<b>Year</b>	<b>Baja California</b>	<b>Ensenada</b>	<b>Mexicali</b>	<b>Tijuana</b>	<b>Tecate</b>	<b>Playas de Rosarito</b>
1950	226,965	31,077	124,362	65,364	6,160	
1960	520,165	64,934	281,333	165,690	8,208	
1970	870,421	115,423	396,324	340,583	18,091	
1980	1,177,886	175,425	510,664	461,257	30,540	
1990	1,660,855	259,979	601,938	747,381	51,557	
1995	2,112,140	315,289	696,034	991,592	62,629	46,596
1996	2,161,666	322,338	707,699	1,029,679	64,041	48,386
1997	2,269,503	333,703	726,147	1,088,395	66,287	54,871
1998	2,371,124	345,388	745,027	1,151,515	68,611	60,583
1999	2,461,016	356,967	764,124	1,225,323	70,983	57,579
2000	2,487,367	370,730	764,602	1,210,820	77,795	63,420

*Source: INEGI*





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Decade	Annual Growth Rate %
1950-60	8.6
1960-70	5.3
1970-80	3.1
1980-90	3.5
1990-00	4.1

*Source: INEGI*

### *Employment*

Due to Baja's proximity to the United States, coupled with the enactment of NAFTA, Baja has become inundated with Maquiladora facilities. In these facilities, many name brand electronics, toys, clothing and utilities are assembled at a low cost of labor. Baja's proximity to the United States facilitates rapid transportation of unfinished goods to finishing plants in the United States and NAFTA has created many economic incentives for the Maquiladoras in Baja. The Baja workforce is segregated into the following categories:

#### **Baja Employment by Sector 2000**

Sector	% of Employed
Manufacturers	23.3
Services	41.5
Commerce	16.4
Construction	7.5
Agriculture, Livestock, Fishing & Mining	10.4
Power Industry	0.9
Total	100.0

*Source: INEGI*

As a result of Baja's strong Maquiladora influences, Baja posts competitive unemployment rates in comparison to other Mexican states. This fact, combined with Baja's rapid migratory population growth, indicate that employment should remain strong in the near future.

### *Education*

According to the INEGI, of Baja's population over 15 years old during 2000, approximately 93% have attended some level of school. This compares to over 90% of the population in 1990. In 2000, 62% of the over 15 year old population has attended post-primary school. This is an increase from over 55% in 1990. In addition, a smaller portion of the population is reported as not receiving instruction. The following chart illustrates the level of instruction for the population of Baja over 15 years of age.



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**Population of 15 Years and Over Level of Instruction**

	<b>1990</b>	<b>2000</b>
Total	1,060,070	1,523,780
Percent		
Without Instruction	7.1	6.3
Primary Incomplete	16.4	13.1
Primary Complete	19.1	17.9
Post-Primary	55.1	62.0
Not specified	2.4	0.7

*Source: INEGI*

In terms of Superior/Graduate education, Baja's colleges offer more than 150 degree programs. Areas of learning include management, research, technical skills, local and international business, biotechnology, oceanography, digital technology and other sciences.

Overall, Baja contains over 3,000 basic schools with over 130 schools of Superior/Graduate education. The number of students in basic education during the 2003-2004 school year numbered approximately 597,000 in Baja with slightly less than 26,000 teachers. Superior/Graduate students numbered about 57,000 with more than 7,000 teachers. The following chart illustrates the number of schools, students and teachers according to school characteristic.

**Characteristics of Education 2003-2004**

<b>Educative cycle</b>	<b>Schools</b>	<b>Students (Thousands)</b>	<b>Teachers</b>
<b>National</b>			
Basic education	205,479	24,304	1,060,143
Education average superior	11,938	3,444	242,142
Qualification for work	5,489	1,297	36,514
Superior education	4,568	2,323	239,887
<b>Baja</b>			
Basic education	3,011	597	25,993
Education average superior	238	82	5,898
Qualification for work	118	14	592
Superior education	137	57	7,250

*Source: INEGI*



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#### *Housing*

According to the INEGI, approximately 550,000 households existed with an average of 4.06 occupants per unit. Of these households, 97.17% have electricity, 81.88% have drainage systems and 92.24% have running water. In addition, many local municipalities offer public services, such as garbage collection, street maintenance, police and public lighting. Likewise, television, telephone, railroad, postal and airport services are available in numerous locations throughout Baja.

#### *Wages and Salaries*

While a minimum wage exists in Baja and throughout Mexico, most Baja wages and salaries are reported higher than minimum. According to the INEGI, the minimum wage for Baja was 46.80 pesos or \$3.45. The following chart illustrates changes in Baja's minimum wage since 1990.



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<b>Baja Minimum Wage</b>	
<b>1990</b>	<b>Pesos</b>
January to November	10.08
December	11.90
<b>1991</b>	
January to November	11.90
December	13.33
<b>1992</b>	
January to December	13.33
<b>1993</b>	
January to December	14.27
<b>1994</b>	
January to December	15.27
<b>1995</b>	
January to March	16.34
April to November	18.30
December	20.15
<b>1996</b>	
January to March	20.15
April to November	22.60
December	26.45
<b>1997</b>	
January to December	26.45
<b>1998</b>	
January to November	30.20
December	34.45
<b>1999</b>	
January to December	34.45
<b>2000</b>	
January to December	37.90
<b>2001</b>	
January to December	40.35
<b>2002</b>	
January to December	42.15
<b>2003</b>	
January to December	43.65
<b>2004</b>	
January to December	45.24
<b>2005</b>	
January to December	46.80
<b>Dollars</b>	
January to December	\$ 3.45

Source: INEGI



*Diamante Del Mar Master Planned Resort  
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#### *Financial Services*

Baja is represented by many large financial institutions that are operated by the private-sector and the free-market. Among the world financial institutions that do business in Baja are: Bank Bilbao Vizcaya, (Spain), Bank Santander (Spain), Bank of Nova Scotia (Canada), Chase Manhattan (USA), Citibank (USA), Bank of America (USA), Bank of Tokyo (Japan) and Bank of Fuji (Japan).

#### *Tourism*

Due to its warm climate and abundant desert and coastal terrain, Baja is a major world destination for tourism. In terms of Hotels, Baja boasts over 350 leisure-based hotels, with a total of over 16,000 rooms. Other amenities for Baja tourists include a total of over 400 restaurants. Average Daily Hotel Rates range from \$16 - \$100 per night.

The number of border crossings at San Ysidro and Otay Mesa increased significantly from 2001 to 2002 according to the United States Immigration and Naturalization Service. The number of border crossings in to the United States can be an indicator to the amount of travel to Baja. Overall, crossings increased 26% from 2001 to 2002. The following chart illustrates the number of border crossings at San Ysidro and Otay Mesa.

<b>Border Crossings</b>			
	<b>San Ysidro</b>	<b>Otay Mesa</b>	<b>Total</b>
2000	52,253,560	13,790,947	66,044,507
2001	54,559,883	13,526,404	68,086,287
2002	68,828,263	17,105,110	85,933,373

*Source: U.S. Immigration and Naturalization Service*

According to the Baja Secretary of Tourism, there have been slightly less than 11 million auto trips on the toll road between Tijuana and Ensenada during 2002 a slight increase from under 10 million trips during 2001. Overall, travel has increased to northern Baja from 2001 to 2002, due to a decrease in travel during 2001. The following chart illustrates the number of auto trips, cruise ship arrivals and flights to the northern Baja area.



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**Baja Auto, Cruise Ship and Airplane Passengers**

	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
Tijuana-Ensenada Toll Road Trips	9,761,919	10,658,162	9,695,459	10,974,094
Cruise Ship Arrivals	257	266	266	186
Number of Passengers	342,252	353,790	392,330	305,338
Tijuana Airport Flights	52,689	43,186	40,149	40,575
Number of Passengers	3,420,732	2,887,458	3,144,873	3,155,088
Mexicali Airport Flights	12,122	12,784	10,919	9,702
Number of Passengers	389,541	460,917	395,355	388,103
San Felipe Airport Flights	6,348	5,753	4,900	6,234
Number of Passengers	14,123	11,603	11,758	14,280

*Source: Baja Secretary of Tourism*

The number of hotel stays by individual travelers has been steadily declining since 1999 according to the Baja Secretary of Tourism. In 2002, there were over 3.5 million hotel stays in the northern Baja area, a decrease of approximately 700,000 from 2001. Ensenada and Rosarito were largely affected by this decline, while Tijuana experienced a slight increase in hotel stays by foreigners. The following chart illustrates the number of hotel stays in the northern Baja area.

**Baja Individual Traveler Hotel Stays**

	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
<b>Nationals</b>				
Ensenada	515,063	457,868	637,429	397,839
Mexicali	895,336	575,545	544,308	538,343
Rosarito	219,494	299,526	325,450	236,957
Tecate	38,685	35,853	32,952	24,750
Tijuana	987,354	987,354	1,089,398	1,021,085
Total	2,655,932	2,356,146	2,629,537	2,218,974
<b>Foreigners</b>				
Ensenada	457,488	428,056	531,244	299,052
Mexicali	418,188	220,005	241,893	254,641
Rosarito	658,483	661,660	585,590	503,972
Tecate	6,283	8,447	4,412	7,871
Tijuana	365,185	365,185	245,868	255,304
Total	1,905,627	1,683,353	1,609,007	1,320,840
<b>Total</b>	<b>4,561,559</b>	<b>4,039,499</b>	<b>4,238,544</b>	<b>3,539,814</b>

*Source: Baja Secretary of Tourism*



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The following chart illustrates hotel occupancy in the northern Baja area.

<b>Baja Hotel Occupancy</b>						
	<b>Tijuana</b>	<b>Mexicali</b>	<b>Ensenada</b>	<b>Tecate</b>	<b>Rosarito</b>	<b>San Felipe</b>
1994	45.00%	57.50%	30.73%	32.74%	32.86%	38.48%
1995	43.49%	52.69%	36.67%	53.48%	33.79%	36.95%
1996	49.28%	55.36%	37.26%	49.65%	37.36%	33.29%
1997	42.90%	62.37%	39.38%	34.22%	35.07%	33.61%
1998	47.33%	70.26%	42.36%	45.48%	30.47%	28.83%
1999	57.54%	73.34%	48.01%	48.01%	47.13%	34.23%
2000	59.86%	66.00%	48.00%	49.00%	49.00%	37.00%
2001	51.28%	54.75%	43.29%	46.24%	42.43%	33.68%
2002	50.28%	61.76%	43.30%	35.14%	45.23%	36.26%

*Source: Baja Secretary of Tourism*





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## **COMPETITIVE MARKET ANALYSIS**

This section provides a brief overview of the master planned golf resort market in Baja California, Mexico.

### **Competitive Resorts**

#### ***Bajamar***

Established in 1976 with an 18-hole golf course, Bajamar is located approximately 48 miles south of the United States and Mexico border. Bajamar is accessed by the toll road that runs from Tijuana to Ensenada. The community is situated on 3 miles of coastline and encompasses 1,750 acres. Bajamar currently includes 360 completed homes, clubhouse, network of cobblestone streets, entry guard and grand road entry station, an additional 9 golf holes and a hotel. The additional 9 holes were completed in 1994 and include four holes on a bluff that overlooks the ocean. The Hacienda Bajamar Hotel is a full-service 81-room luxury hotel that includes a swimming pool, tennis courts and a restaurant. A majority of single-family lot sites include ocean views, golf course views or are oceanfront.

#### ***Cabo del Sol***

Established in 1992, Cabo del Sol is a 1,800-acre community located approximately five miles from the town of Cabo San Lucas along the Sea of Cortez. The community contains two hotels, the Fiesta Americana and the Hacienda del Mar (a Sheraton flagship). Reportedly there are plans to eventually offer more than 2,000 hotel rooms along the oceanfront. Two signature courses exist within the community, a Jack Nicklaus Signature Golf Course and a newly completed Tom Weiskopf Course. Additional amenities include signature tennis and a village center/town plaza. The majority of single-family lots boast ocean views and a few lots have actual ocean frontage. Lot sizes range from approximately 10,764 to 21,529 square feet.

#### ***Querencia***

Established in 1999, this private gated community is considered by the subject developer to be most comparable to the subject planned resort community. Querencia is located approximately four miles south of San Jose Del Cabo, adjacent to the Palmilla Resort. Querencia features a Tom Fazio golf course that will be the only private golf course in Los Cabos as well as a village/spa center. Querencia is a desert-oriented community with no oceanfront lots. A private reservoir provides water to the development. As of the date of valuation, Querencia is offering single-family lots for sale, averaging 30,000 to 40,000 square feet. Development plans include villas as well that are not available for sale as of May 2003. The community will sell personal memberships, similar to the subject planned community. Lot pricing is reported to range from \$250,000 to \$1,300,000. Haciendas (4-6 bedrooms) will range from \$1,600,000 to \$2,500,000.

#### ***Palmilla***

Established in 1987, Pamilla is a 900-acre community located approximately four miles from San Jose Del Cabo, adjacent to Querencia. The resort community contains a 27-hole Jack Nicklaus Signature Golf Course, tennis facilities, a fishing fleet, a swimming beach and a 114-room hotel constructed in 1957. Villas Del Mar is an upscale community located within Palmilla, which contains both lots with ocean views as well as lots with ocean frontage. Several other communities are also contained within this resort community.



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***Monte Ceniza***

Currently in planning stages, the Monte Ceniza master planned development is located on the peninsula adjacent to Bahia San Quintin. Development plans on the 2000-acre property include bay-front single-family residential development, 36-hole golf course, pier, shops, restaurants, galleries, hotel and light industrial technology park.

Although these resorts have similar uses to the Subject Property, they are not considered truly comparable to the Subject due to the specialized nature of the Diamante Del Mar Club.



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## **NEIGHBORHOOD ANALYSIS**

### ***El Rosario***

The closest township to the Subject Property is El Rosario, about one hour south of San Quintin and less than 5 miles from the Subject Property. The town is divided into two parts: El Rosario de Arriba (adjacent to Highway 1) and El Rosario de Abajo (adjacent to the Rio del Rosario). The town serves primarily as the market center for valley farms and ranches, as well as several small fishing villages. The city is comprised of clusters of single family dwellings, several commercial establishments that include a PEMEX station, motels, small dining establishments and an internet café. The area is currently undeveloped in terms of resort properties. The population of approximately 5,000 consists of ejidatarios, and most of the surround area is undeveloped. El Rosario is located adjacent to Highway 1, that is the primary transportation corridor for Baja California that connects Tijuana to the north and La Paz to the south. Other than Highway 1, most roads in the vicinity are not paved.

### ***San Quintin***

The largest township in the immediate vicinity of the Subject Property is San Quintin; approximately one hour's drive to the north. San Quintin is serviced by a University of Tijuana extension campus, similar retail services to other major Baja townships and maritime reserve/marina area that is used by fisherman and boaters. According to Diamante's legal counsel, a Master-Planned Golf community was considered for development in San Quintin but development ceased due to ecological concerns, as this site was restricted as an ecological preserve.

San Quintin is primarily a fishing town, noted for albacore tuna fishing and clam-catching. Likewise, San Quintin's proximity to shallow waters make it a popular spot for camping, bird watching and agriculture. According to data obtained, the year-round population in San Quintin is approximately 30,000.



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# **SITE DESCRIPTION**

This section of the report details the Subject's site characteristics.

## **Size and Shape of Site**

The Subject Site consists of six "Grupos" that are comprised of 10 parcels, with a total land area of 3,936.43 hectares (39,634,320 M<sup>2</sup>, or 9,727 acres) as certified by the Mexican government. The identification of each Grupo, parcel and the land area associated are in the following table.

### **Diamante Del Mar Master Planned Resort**

<b><u>Parcel Number</u></b>	<b><u>Hectares</u></b>	<b><u>Acres</u></b>
<b>Grupo Numero 8</b>		
171	14.65	36
175	446.19	1,103
176	<u>32.23</u>	<u>80</u>
	493.07	1,218
<b>Grupo Arvi</b>		
	45.83	113
<b>Grupo A</b>		
94	52.29	129
<b>Grupo El Consuelo</b>		
173	1,429.04	3,531
174	<u>1,782.42</u>	<u>4,404</u>
	3,211.46	7,936
<b>Ejido Reforma Agraria Integral</b>		
	22.44	55
<b>Ejido Nuevo Uruapan*</b>		
	<u>111.34</u>	<u>275</u>
<b>Total</b>	<b>3,936.43</b>	<b>9,727</b>

*\*Comprised of two parcels*



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### **Access and Visibility**

The Subject Site is located between Highway 1 and the Pacific Ocean, adjacent to El Rosario, Baja California, Mexico. The Subject Property is approximately 210 miles south of San Diego. Primary road access is by Highway 1 via an unpaved road. Highway 1 is the primary artery through Baja California that connects Tijuana and La Paz through various cities such as Ensenada and Loreto. The location of the Subject Site adjacent to Highway 1 provides limited visibility due to the highway being located on top of a mesa, and the majority of the site to be developed located adjacent to the Pacific Ocean.

Due to its relative remote location in Baja California, the developers have constructed a 50 by 6,000 foot concrete airstrip on the Site that will be accessible by private aircraft of an approximate 30 minute flight from San Diego.

The relative remote location of the Subject Site is considered to be a positive attribute to the development due to the private nature of the Diamante del Mar Club.

### **Zoning**

As of the date of value, the Subject Site is zoned for tourism and golf course uses. In addition, Diamante Del Mar has prepared a zoning map that extends from southern San Quintin to southern El Rosario that covers uses within and surrounding the Subject Site.

### **Flood Map**

The Subject Site is not located in any flood zone.

### **Easements**

There are no known easements on the property.

### **Development Status**

According to legal counsel of Diamante del Mar, as of March, 2005 Diamante Del Mar acquired good, clear, marketable, insurable title to three Grupos of land that comprises approximately 8,065 of the 9,727 total acres. (We have retained copies of the deeds for these parcels in our workpaper file) As of the date of value, Diamante Del Mar is soliciting title insurance from Fidelity Global Solutions on the above mentioned three parcels. According to Diamante Del Mar, a first mortgage security interest on the three parcels will be available to a lender at the time of closing on any loan. There are no encumbrances on the Subject Property.

Diamante Del Mar expects to obtain fee simple title on three parcels that comprise 1,218 acres three to six months after the date of value. This transfer would bring the total acreage held in fee simple estate to approximately 9,283 acres. The remaining approximate 444 acres would continue to be held in leasehold interest (Ejido) and all development (if any) on this portion of the property would rely on the Ejido terms.

Diamante Del Mar has budgeted approximately \$230,000,000 for the development of the Diamante Del Mar Club. The Proposed Development is expected to be completed in three phases over three to four years.



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Phase I – includes half of the private jet airstrip, the Fazio designed oceanfront golf course, the golf practice facility, the construction road, the main entrance road to the oceanfront core area, the maintenance facility, final designs for the Love golf course and core facilities, and a “Hacienda” compound on three and one half acres with accommodations for members and guests. The total development cost for Phase I is estimated at \$65,000,000.

Phase II – includes construction of the Love designed oceanfront golf course, the lodge and guest suites, clubhouse, tennis complex, spa, fitness center, winery and vineyards, equestrian center, recreational facilities, additional villas and casitas. The total development cost for Phase II is estimated at \$100,000,000.

Phase III – may include a third “links” style golf course on the edge of the mesa, a recreational lake for fishing and water sports and a small marina facility. The total development cost for Phase III is estimated at \$65,000,000.

Diamante Del Mar has obtained the entitlements necessary to start construction of Phase I of the Proposed Development.

#### *Ejidos*

As of the date of value, Diamante Del Mar has a leasehold interest in, and an agreement to obtain on three parcels that comprise 1,218 acres three to six months after the date of value. The remaining approximate 444 acres would continue to be held in leasehold interest (Ejido) and all development (if any) on this portion of the property would rely on the Ejido terms.

As of the date of value, the 50% of the following leasehold payments on Ejido land have been paid. The remaining payment on Grupo Numero 8 will be made upon transfer of title. As of the date of this report, title is expected to close four to five months after the date of value.

Grupo Numero 8*:	\$550,000
Grupo Arvi:	\$220,000
Ejido Nuevo Uruapan**:	\$1,000,000
Ejido Reforma Agraria Integral:	\$0

\* Includes three parcels.

\*\* Includes two parcels.



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*Utilities*

As of the date of value, the Subject Site was not served with utilities. The following list includes development plans for utilities.

- Power will be provided through lines that run adjacent to Highway 1. Possible access to utility lines from the Subject Property is located on the eastern and southern borders of the property.
- Telephone will be provided through lines that run adjacent to Highway 1. Possible access to utility lines from the Subject Property is located on the eastern and southern borders of the property.
- Water for the Subject will be provided by a desalinization system. No cost details of the desalinization system were provided to us.
- A small sewage treatment plant will be provided for the lodge, clubhouse and other core facilities. The residential units will reportedly be served by septic systems.





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### **HIGHEST AND BEST USE ANALYSIS**

The appraisal of real estate always includes an estimate of highest and best use. According to *The Appraisal of Real Estate – Twelfth Edition*, by the Appraisal Institute, the highest and best use is defined as:

*The reasonably probable and legal use of vacant land or an improved property that is physically possible, legally permissible, appropriately supported, financially feasible, and that results in the highest value.*

In estimating the highest and best use, there are four criteria that must be analyzed:

**Physically Possible:** Use is restricted by the physical characteristics of the site. Characteristics include, but are not limited to: size, shape, terrain, soil composition and accessibility of utilities.

**Legally Permissible:** The use of a site can be restricted by various building codes, environmental regulations, deed or lease restrictions among other things.

**Financially Feasible:** When a use meets the first two criteria, it is analyzed further to see if it is likely to produce an income or return equal to or greater than the amount needed to satisfy operating expense and provide a return on capital investment.

**Maximally Productive:** This item refers to the use that produces the highest price, or value.

The highest and best use of the Subject Property is analyzed under two scenarios: 1) As if vacant and 2) As improved.

#### **As If Vacant**

Highest and best use of the site as if vacant assumes that a parcel of land is vacant or could be vacant by demolishing the improvements. Given this assumption, the analysis determines the size, quality and function of the improvements that would provide the highest return to the land.

The four criteria of the highest and best use (as mentioned) above provide a basis for analysis. To form an opinion of the highest and best use as if vacant, we considered the physical attributes of the Subject Property, its zoning, location, known governmental influences, and the uses of surrounding properties.

#### **Physically Possible**

The first constraint imposed on the possible use of property is dictated by the physical aspects of the site itself, such as size, frontage, topography, accessibility and availability of utility. These are adequate for most types of building construction. Generally, the larger the site, the greater potential for achieving economies of scale or flexibility in development.



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The Subject Property consists approximately 9,727 acres of land located between Highway 1 and the Pacific Ocean. The topography of the land varies from flat mesa along the highway, to sand dunes, rolling hills and coastal cliffs. Current access to the perimeter of the Subject Site is by Highway 1. Access within the Subject is by various unpaved roadways as of the date of value.

The Subject Site is planned for the development of a master planned golf resort. As of the date of value, the Site was primarily in its natural condition, with the exception of the paved airstrip and various unpaved roadways. There are a few existing residences along the coastal portion of the subject property. These residences are planned for demolition and are not considered to add any value to the site as it is planned. Nor do these residences represent a limitation on potential use of the property.

Soils studies have been prepared as part of the golf course design process, and do not indicate any adverse soil conditions that may have an affect on the development process.

A sustainable water supply to the development will be provided through a desalinization process.

#### **Legally Permissible**

Legal restriction consists of private (deed restrictions, easements and other requirements) and public zoning restrictions that limit the development potential of a site. The Subject Property is zoned for tourism and golf course uses. As part of the certification process, the physical boundaries of the Subject have been established. We were not made aware of any easements or encumbrances prohibiting the development of the Subject Site.

#### **Financially Feasible / Maximally Productive**

Financial feasibility is based on whether the proposed project will attain cash flow of sufficient quantity, quality and duration to allow investors to recover the capital invested and achieve the necessary expected rate of return. Factors to be considered are the timing of inflows and outflows of cash, revenues, costs, debt service, and the proceeds of a sale or refinancing.

An in depth analysis completed on possible alternative uses of the site is beyond the scope of this appraisal assignment. In analyzing the Subject Property, principal reliance was placed on growth trends in the area, present occupancy of competitive properties and proposed development.

Although there are no similar products located in the Subject's vicinity as well as in the corridor between Ensenada and Tijuana to the north, there are a number of similar projects located in the southern region of Baja as outlined in the Competitive Resorts section. Demand for a resort such as Subject can be evidenced in similar demand for the competitive properties. Therefore, it is estimated that the highest and best use, if vacant, would be to develop a master planned golf resort built to market derived specifications.

#### **As Improved**

As of the date of value, improvements to the Subject Property include a paved airstrip, several single-family dwellings and dirt roads. The current improvements do not contribute to the overall value of the Subject Property, thus the Subject is considered as vacant. However, as the property is developed, the airstrip will contribute to the overall value of the development.



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## **ECONOMIC VALUATION**

This section discusses the valuation methodology, approach to value, and the support for the estimate of value for the Diamante Del Mar Master Planned Resort.

### **Valuation Methodology**

For the purpose of estimating market value of the Subject Property, we have utilized the Sales Comparison Approach to value. We did not utilize the Income Approach due to the lack of income attributable to the Subject as of the date of value. The Cost Approach was not considered applicable due to the lack of improvements that contribute to the overall value of the Subject Property.

## **THE SALES COMPARISON APPROACH**

The Sales Comparison Approach produces an estimate of value for real estate by comparing recent sales of similar properties in surrounding or competing area to the Subject Property. Inherent to this approach is the principle of substitution, which holds that when a property is replaceable in the market, its value tends to be set at that cost of acquiring an equally desirable substitute property, assuming that no costly delay is encountered in making the substitution. To obtain a supportable estimate of value, the sales price of a comparable property must be adjusted to reflect any dissimilarity between it and the Subject Property.

In order to conduct the Sales Comparison Approach, we segregated the Subject Site by utilization, location and topography of land. We have established four categories of land that will be valued separately. The estimated area of each category is based on a review of maps associated with the Diamante Del Mar development and representations from Diamante Del Mar management. A description of each category of land is provided below.

**Ocean Front Resort:** Includes land that is slated for development of the Diamante Del Mar Club. We have estimated that the land required to construct the golf courses, 175 villas, 300 home sites, a hotel, desalinization plant, and various infrastructure totals approximately 536 acres or 217.00 hectares.

**Potential Ocean View:** Includes land that is part of the Diamante Del Mar master planned resort that is not prime ocean front resort, yet has potential ocean view. We have estimated that the potential ocean view area totals approximately 831.83 hectares or 2,055 acres.

**Mesa:** Includes land area that is located adjacent to Highway 1, and is currently utilized for the airstrip and aviation purposes. We have estimated that the mesa area totals approximately 478.42 hectares or 1,182 acres. Future plans for the mesa area include ocean view residential lots and supporting infrastructure.

**Other:** Includes land that is part of the Diamante Del Mar master planned resort that does not have an ocean view or is not buildable due to topographical, adverse soil conditions or is considered a conservation area. We have estimated that the other resort area totals approximately 2,409.19 hectares or 5,953 acres.



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A search for comparable sales of land in the North Baja region did not yield any sales that are truly comparable to the Subject. An expanded search of the entire Baja peninsula yielded a number of sales in the South Baja region of land slated for tourist and resort development.

We have identified the following sales as comparable to the Subject for the ocean frontage resort area.

Diamante Del Mar Ocean Frontage Resort Area Comparable Land Sales Summary										
Property Address	Sale Date	Sale Price	Land Area (Hectares)	Land Area (Sq <sup>ft</sup> )	Price per Hectare	Price per M <sup>2</sup>	Interest Conveyed	Zoning	Ocean Frontage	Comment
Lot 11, Hotel Section 1, Baja California Sur, Mexico	November, 2004	\$3,771,511	4.65	46,531	\$810,537	\$81.05	Fee Simple	TH4	Yes	To construct a resort hotel.
Las Ventanas, Baja California Sur, Mexico	August, 2004	\$3,237,672	3.63	36,320	\$891,419	\$89.14	Fee Simple	n/a	Yes	Value of land associated with sale of resort property.
Grand Regina Los Cabos, Baja California Sur, Mexico	May, 2003	\$3,950,000	3.59	35,853	\$1,101,716	\$110.17	Fee Simple	n/a	Yes	To construct timeshare resort.
<b>Subject Property</b>										
Diamante Del Mar, El Resorio, Baja California, Mexico	--	--	202.35	2,023,472	--	--	Fee Simple	Tourism / Golf Course	Yes	
Source: Various										

High	\$3,950,000	4.653	46,531	\$1,101,716	\$110.17
Low	\$3,237,672	3.585	35,853	\$810,537	\$81.05

Sale No. 1 is the fee simple sale of 46,531 square meters of land from Cabo Azul to Monarch Grand Vacations in November of 2004 for \$42,395,557 pesos or \$3,771,551 US dollars. The land is located in San Jose del Cabo, Baja California Sur, Mexico and is identified by lot 11, Hotel Section 1, Tourist Zone with hotel tourist Code TH4. The buyers intend to construct residential timeshares on the property. The sale price equates to \$81.05 US per square meter.

Sale No. 2 is the sale price allocated to the land in the fee simple sale of 36,320 square meters of land from JTL Capital LLC to Ty Warner in August of 2004 for \$36,754,053 pesos or \$3,237,672 US dollars. The land is located between San Jose del Cabo and Cabo San Lucas in Cabo Real in Baja California Sur, Mexico. The sale price equates to \$89.14 US per square meter.

Sale No. 3 is the fee simple sale of 35,853 square meters of land to Starwood in May of 2003 for \$3,950,000 US dollars. The land is located in San Jose del Cabo, Baja California Sur, Mexico and is adjacent to the Westin Regina Resort & Spa. The buyers intend to construct residential timeshares on the property. The sale price equates to \$110.17 US per square meter.

Based on discussions with brokers and market participants, we have made adjustments to the comparable sales based on the following criteria.

*Conditions of Sale*

An adjustment for Conditions of Sale occurs when terms of a particular sale are affected by undue stimuli, such as a distressed sale, a non-arms-length sale or an assemblage sale. No adjustments were made to the comparable sales as all were transfers of fee simple interest.



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#### *Market Conditions*

Adjustments for Market Conditions occur when the sale date of a particular sale comparable transpired at a time when market conditions were different than market conditions indicated by the date of value. No adjustments for market conditions were indicated for sales No. 1 and No. 2 as each occurred less than one year ago. A slight upward adjustment was made for sale No. 3 as the market for ocean front developable land has increased from May, 2003.

#### *Size*

Adjustments are made for size to reflect the effects of economies of scale upon the value of a property. A size adjustment is founded on the premise that a smaller property with an equal use will have a higher market value per square foot, than a larger property. Downward adjustments were made for each of the comparable sales as they are considerably smaller than the Subject.

#### *Zone/Proposed Use*

Adjustments are made for zone and proposed use to reflect the intensity or type of use that is allowed on the comparable sales properties. No adjustments were made for zone or proposed use as the comparable sales are slated for tourism and resort development.

#### *Location*

Adjustments are made for location to reflect differences in property desirability by specific users. According to brokers and market participants, resort land in Baja Sur commands sale prices approximately 50% higher than the Subject's location. Thus, a downward adjustment of 50% was made to each of the comparable sales with an additional 5% downward adjustment for Sale No. 3 to reflect the adjacency to the Westin resort.

#### *Access*

Adjustments are made for access to reflect proximity to major thoroughfares, freeways and other means of transportation. Although the Subject includes a recently completed airstrip, current access to and within the Subject Site is by dirt road. Thus, a downward adjustment is made to each of the sale comparables.

#### *Utilities*

Adjustments are made for utilities to reflect the difference in land value attributed to installation of offsite amenities, including sewage, water, gas and electricity. As the Subject Site has utility access on the outer edge of the property adjacent to Highway 1, however no water or sewer access, a downward adjustment was made to each of the sale comparables.





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<b>Diamante Del Mar</b>				
<b>Ocean Frontage Resort Area Land Sales Adjustment Grid</b>				
Comparable #	1	2	3	Subject
	Lot 11, Hotel Section 1, Baja California Sur, Mexico	Las Ventanas, Baja California Sur, Mexico	Grand Regina Los Cabos, Baja California Sur, Mexico	
Property Description				
Transaction Type	Sale	Sale	Sale	
Sale Date	November, 2004	August, 2004	May, 2003	4/1/2005
Sales Price	\$3,771,511	\$3,237,672	\$3,950,000	
Size (M <sup>2</sup> )	46,531	36,320	35,853	2,023,472
Price per M <sup>2</sup>	\$81.05	\$89.14	\$110.17	
Sale Conditions	Similar	Similar	Similar	
Market Conditions	Similar	Similar	Inferior	
Subtotal	Similar	Similar	Inferior	
Size	Superior	Superior	Superior	
Zone/Proposed Use	Similar	Similar	Similar	
Shape	Similar	Similar	Similar	
Location	Superior	Superior	Superior	
Access	Superior	Superior	Superior	
Utilities	Superior	Superior	Superior	
Total Other Adjustments	Superior	Superior	Superior	Average
Adjusted Price per M <sup>2</sup>	\$20.26	\$22.29	\$22.03	\$21.53
<i>Source: Various</i>				

An upward adjustment was made to sale No. 3 for market conditions. Downward adjustments were made for size, location, access and utilities for each of the sale comparables. Overall, a 75% downward adjustment was made for sales No. 1 and No. 2 and an 80% downward adjustment made to comparable sale No. 3.

The adjusted sales price per square meter for the sales comparables range from \$20.26 to \$22.29 per square foot of buildable resort land area. Based on the adjusted comparable sales, we have concluded \$20.00 per square meter of buildable land area for the fee simple ocean frontage resort area.

For the resort area and the mesa we have applied a 10% increase to the concluded values for the leasehold interest land from the KPMG valuation report dated August 12, 2003 based on discussions with local brokers and market participants. The concluded value for the leasehold with potential ocean view is \$2.00 per square meter of land area. The concluded value for the leasehold mesa area is \$0.30 per square meter of land area. The concluded value for the other leasehold area is \$0.30 per square meter of land area.

An adjustment of 15% was applied to the concluded leasehold interest value to reflect the fee simple interest in the portion of other (does not have an ocean view or is not buildable due to topographical, adverse soil conditions or is considered a conservation area) resort and mesa land that is held in fee simple title based on discussions with local brokers and market participants. The concluded value for the fee simple potential ocean view area is \$2.20 per square meter of land area. The concluded value for the fee simple mesa area is \$0.33 per square meter of land area. The concluded value for the other fee simple area is \$0.33 per square meter of land area.



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The following chart includes the value conclusions based on the Sales Comparison Approach for each of the land categories.

**Sales Comparison Approach Summary**

**Land Held in Fee Simple**

Land Description	Area (Acres)	Area (Hectares)	Area (M <sup>2</sup> )	% of Site	Value per M <sup>2</sup>	Total Fee Simple Value	Value per Acre
Ocean Front Resort	500.00	202.35	2,023,472	6.2%	\$20.00	\$ 40,469,446	\$80,939
Potential Ocean View	2,000.00	809.39	8,093,889	24.8%	\$2.20	17,806,556	\$8,903
Mesa	-	-	-	0.0%	\$0.33	-	n/a
Other	5,564.73	2,252.01	22,520,139	69.0%	\$0.33	7,431,646	\$1,335
<b>Total</b>	<b>8,064.73</b>	<b>3,263.75</b>	<b>32,637,500</b>	<b>100.0%</b>		<b>\$ 65,707,647</b>	<b>\$8,148</b>

**Land Held in Leasehold**

Land Description	Area (Acres)	Area (Hectares)	Area (M <sup>2</sup> )	% of Site	Value per (M <sup>2</sup> )	Total Leasehold Value	Value per Acre
Ocean Front Resort	36.20	14.65	146,500	2.2%	\$6.00	\$ 879,000	\$24,282
Potential Ocean View	55.44	22.44	224,380	3.3%	\$2.00	448,760	\$8,094
Mesa	1,182.18	478.42	4,784,200	71.1%	\$0.30	1,435,260	\$1,214
Other	388.38	157.17	1,571,740	23.4%	\$0.30	471,522	\$1,214
<b>Total</b>	<b>1,662.20</b>	<b>672.68</b>	<b>6,726,820</b>	<b>100.0%</b>		<b>\$ 3,234,542</b>	<b>\$1,946</b>

**Total Land Area**

Land Description	Area (Acres)	Area (Hectares)	Area (M <sup>2</sup> )	% of Site	Blended Value per (M <sup>2</sup> )	Total Value	Blended Value per Acre
Ocean Front Resort	536.20	217.00	2,169,972	5.5%	\$19.05	\$ 41,348,446	\$77,114
Potential Ocean View	2,055.44	831.83	8,318,269	21.1%	\$1.82	18,255,316	\$8,881
Mesa	1,182.18	478.42	4,784,200	12.2%	\$0.11	1,435,260	\$1,214
Other	5,953.10	2,409.19	24,091,879	61.2%	\$0.10	7,903,168	\$1,328
<b>Total</b>	<b>9,726.92</b>	<b>3,936.43</b>	<b>39,364,320</b>	<b>100.0%</b>	<b>\$1.75</b>	<b>\$ 68,942,189</b>	<b>\$7,088</b>
					(Rounded)	<b>\$ 68,900,000</b>	

The Sales Comparison Approach indicates a value of \$68,900,000, \$1.75 per square meter or \$7,088 per acre.





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**RECONCILIATION AND FINAL ESTIMATE OF VALUE**

Based on the preceding data and analysis set forth in this report, the Sales Comparison Approach indicates the following value for the Diamante Del Mar as of April 1, 2005. We did not utilize the Income Approach due to the lack of income attributable to the Subject as of the date of value. The Cost Approach was not considered applicable due to the lack of improvements that contribute to the overall value of the Subject Property.

Cost Approach: Not Applicable

Sales Comparison Approach: \$68,900,000

Income Approach:

Discounted Cash Flow Not Applicable

Direct Capitalization Not Applicable

**Fee Simple and Leasehold Interest  
Market Value Conclusion: \$68,900,000**



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## **ASSUMPTIONS AND LIMITING CONDITIONS**

### **General Assumptions and Limiting Conditions**

The general assumptions and limiting conditions applicable to this appraisal are as follows:

- This report is based on a substantial amount of information obtained from a variety of sources. These include the property owner, on-site property managers/engineers, sellers, buyers, brokers and governmental agencies. Where possible, we have attempted to independently verify all data. However, we must assume that all information obtained is reasonable and accurate.
- Our analysis and opinion of value assumes the Hotel as is uncontaminated. Therefore, our opinion of value is "as uncontaminated".

### **Specific Limiting Conditions**

This appraisal is expressly contingent upon the following Specific Limiting Conditions:

- No responsibility is assumed for legal or title considerations. Title to the property is assumed to be good and marketable unless otherwise stated in this report.
- The property is appraised free and clear of any or all liens and encumbrances unless otherwise stated in this report.
- Responsible ownership and competent property management are assumed unless otherwise stated in this report.
- The information furnished by others is believed to be reliable. However, no warranty is given for its accuracy.
- It is assumed that there are no hidden or unapparent conditions of the property, subsoil, or structures that render them more or less valuable. No responsibility is assumed for such conditions or for arranging for engineering studies that may be required to discover them.
- It is assumed that there is full compliance with all applicable federal, state, and local environmental regulations and laws unless otherwise stated in this report.
- It is assumed that all applicable zoning and use regulations and restrictions have been complied with, unless nonconformity has been stated, defined, and considered in this appraisal report.
- It is assumed that all required licenses, certificates of occupancy, or other legislative or administrative authority from any local, state, or national governmental or private entity or organization have been obtained or renewed for any use on which the value estimates contained in this report are based.
- Possession of this report, or a copy thereof, does not carry with it the right of publication. It may not be used for any purpose, or by any person, other than the party to whom it is addressed, without the written consent of the author, and in any event, only with proper written qualification and only in its entirety. The report may be shared with the Company and its consultants.



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- The authors of this report are not qualified to detect hazardous waste and/or toxic materials. Any comment by the author that might suggest the possibility of the presence of such substances should not be taken as confirmation of the presence of hazardous waste and/or toxic materials. Such determination would require investigation by a qualified expert in the field of environmental assessment. The presence of substances such as asbestos, urea formaldehyde foam insulation, or other potentially hazardous materials may affect the value of the property. The author's conclusions are predicated on the assumption that there is no such material on or in the property that would cause a loss in value unless otherwise stated in the report. No responsibility is assumed for any environmental conditions, or for any expertise or engineering knowledge required to discover them. The author's descriptions and resulting comments are the result of the routine observations made during the appraisal process.
- No part of this report (especially any conclusions as to value, the identity of the author, or the firm with which the author is connected) shall be disseminated to the public through advertising, public relations, new sales, or other media without prior written consent and approval of the author.
- The distribution, if any, of the total valuation in this report between land and improvements applies only under the stated program of utilization. The separate allocation for land and buildings must not be used in conjunction with any other appraisal and are invalid if so used.
- Unless otherwise stated in this report, the Subject was appraised without a specified compliance survey having been completed to determine if the property is or is not in conformance with the requirements of the Americans with Disabilities Act. The presence of architectural and communications barriers that are structural in nature and would restrict access by disabled individuals may adversely affect the property's values, marketability, or utility.
- It is assumed that the utilization of the improvements is within the boundaries or property lines of the Subject Property and that there is no encroachment or trespass unless otherwise stated in this report.



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**CERTIFICATION OF APPRAISERS**

The signers of these appraisal reports does by their signature on this certification, certify that to the best of their knowledge and belief:

1. The statements of fact contained in this report are true and correct.
2. The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal, unbiased profession analyses, opinions, and conclusions.
3. We have no present or prospective interest in the property that is the subject of this report, and we have no personal interest or bias with respect to the parties involved.
4. Our compensation is not contingent upon the report of a predetermined value or direction in value that favors the cause of the client, the amount of the value estimate, the attainment of a stipulated result, or the occurrence of a subsequent event.
5. Our analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice (USPAP).
6. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
7. As of the date of this report, Randi S. Rosen, MAI has completed the requirements under the continuing education program of the Appraisal Institute.
8. Personal inspection of the selected Subject was made by Brian Tankersley of KPMG LLP.
9. Randi S. Rosen, MAI has extensive experience in the appraisal/review of similar property types.
10. The appraisal assignment was not based on a requested minimum valuation, a specific valuation, or the approval of a loan.
11. Our engagement in this assignment was not contingent upon developing or reporting predetermined results.
12. Our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
13. This certification of the appraiser is applicable to all Subject properties appraised as part of this valuation assignment.

Respectfully submitted,

Randi S. Rosen, MAI  
(Reviewed & Approved)

Brian Tankersley

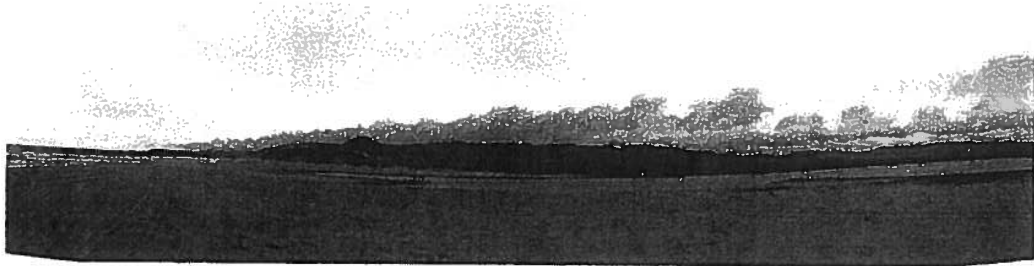


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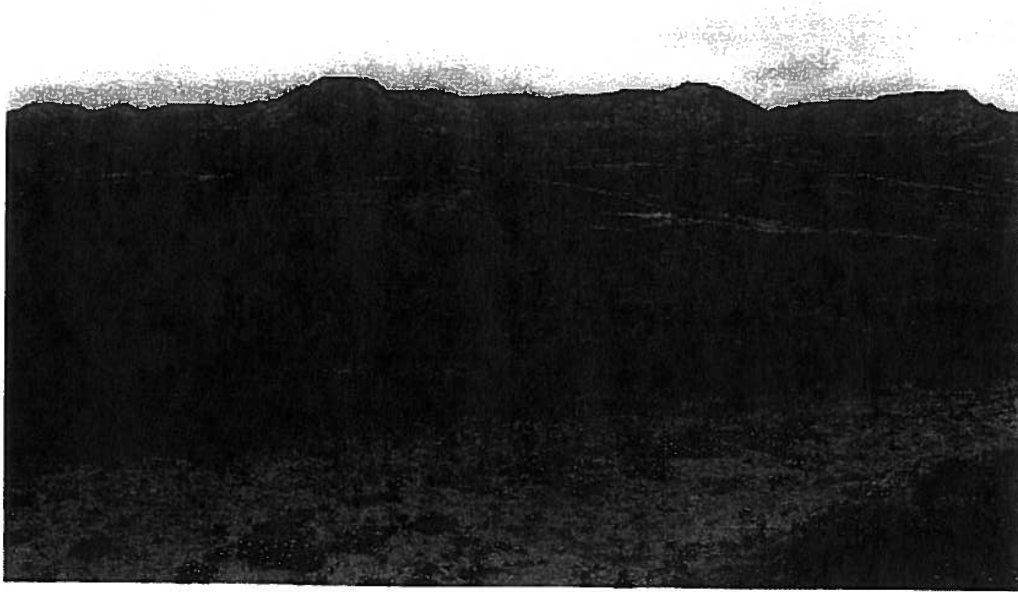
**APPENDIX A – SUBJECT PHOTOGRAPHS**



**Subject Panorama towards Pacific Ocean – from approximate center of Subject**



**River Estuary Panorama towards north – from south end of Subject**

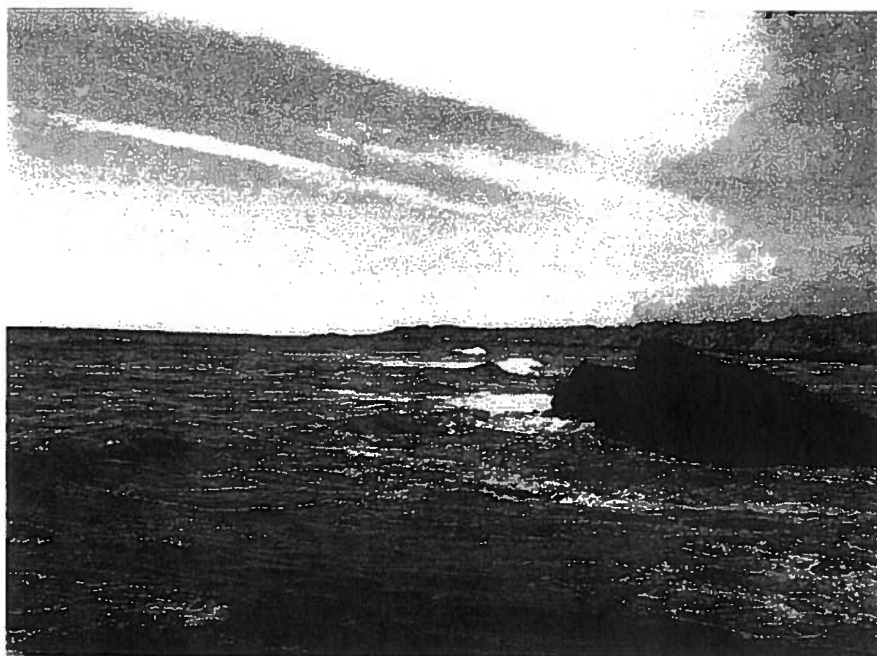


**Grupo Numero 8 towards north**



**KPMG**

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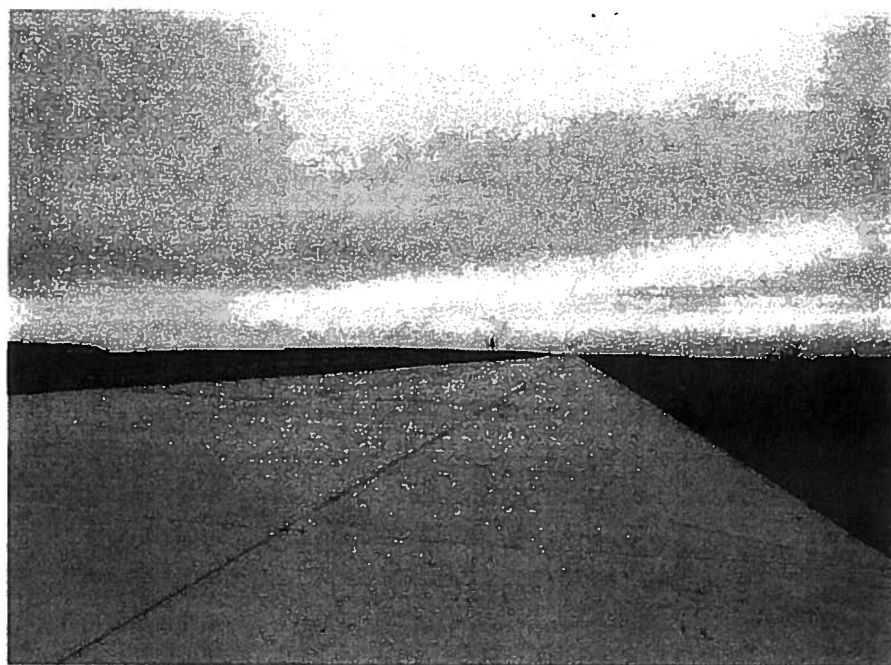
**Subject Ocean Frontage towards north – from approximate middle of Subject coastline**



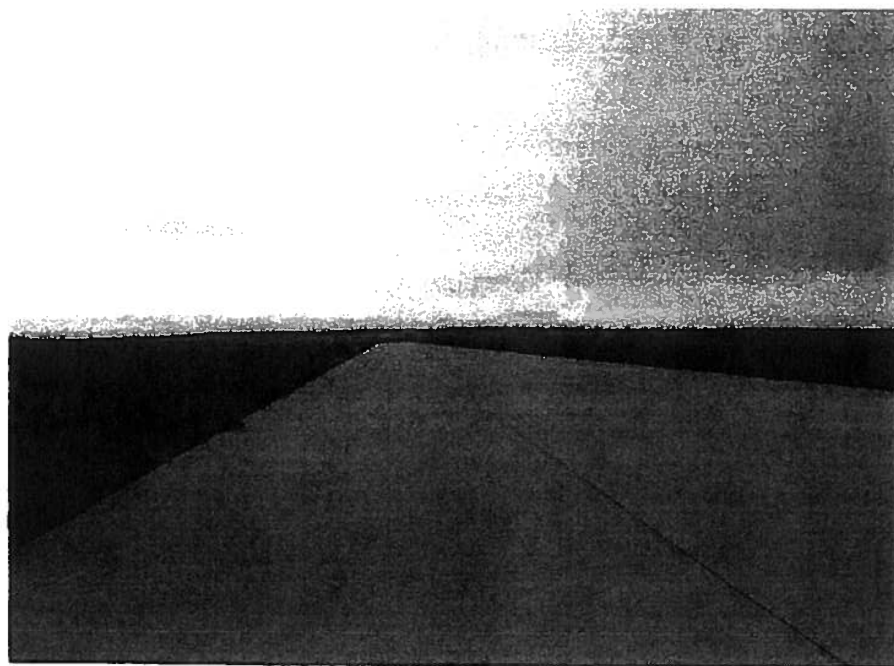
**Subject Ocean Frontage towards south – from approximate middle of Subject coastline**



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**Airstrip towards north**



**Airstrip towards south**